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PRACTICAL BANKING

Questions and Problems

By

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QUESTIONS

CHAPTER I.

1. Explain what is meant by division of labor.
2. Discuss the localization of industry.
3. How do these two features of modern industry increase the demand for money?
4. What qualities must be possessed by a thing which is to be used as a medium of exchange?
5. What other articles besides coin have been used in the past as money?
6. What services does money perform besides acting as the medium of exchange?

7. What qualities must a coinage system possess in order to serve the purposes for which it is intended?
8. Explain why specialization leads to the cheapening of products.
9. Give the best example you can, aside from those given in the text, of a localized industry, and explain the reasons for such a localization.
10. Is gold an ideal money metal? Give arguments both for and against its use.

CHAPTER II.

1. What is a dollar?
2. What is the relation between the standard dollar and the other coins of our system?
3. What are the conditions of silver coinage in the United States to-day?

4. What are "minor" coins? Under what conditions are they coined in the United States?
5. What is a greenback? What is the security back of them?
6. Explain what gold and silver certificates are, and why they are issued.
7. What is meant by legal tender? What are the provisions of the legal tender laws as to our different forms of money?
8. What peculiarities are there as to the use of different coins or other forms of money in different sections of the country?
9. Explain the difference between treasury notes of 1890 and greenbacks.
10. How many metals are admitted to free coinage in the United States?

CHAPTER III.

1. What is meant by credit, and how does it supplement the work of money?
2. What are the principal forms of credit?
3. Discuss the book account as a form of credit.
4. What are the essentials of a promissory note?
5. Discuss endorsement of a note.
6. What is the security back of a collateral note?
7. Explain the nature of a security furnished by a mortgage.
8. What are the essential features of a bond as a credit instrument?
9. Discuss the importance of credit arrangements as related to modern business organization.

10. Explain the saving that results from the use of credit besides the saving in time.

CHAPTER IV.

1. Name the principal functions of the commercial bank.
2. Show how the bank is essential to modern capitalized forms of production.
3. Is it an indication that a man is financially weak because he desires to borrow from the bank?
4. How does the bank act indirectly to improve the quality of business enterprise?
5. Explain the other services which a bank renders to the community in connection with its deposit department.
6. Explain how the bank is a "manufacturer of credit and a machine for facilitating exchanges."

7. State briefly the present standing of the note issue function in the United States.
8. How does the system of dealing through bank credit tend to improve business standards?
9. Show how in the development of banking, functions that were originally very important have become much less so.
10. Show how other functions have grown in importance.

CHAPTER V.

1. Are all banks organized in the form of corporations? Under what authority can banks incorporate?
2. In whose hands is the actual management of a bank's affairs placed?
3. What are the requirements as to directors of a National Bank?

4. Explain the requirements of the National Bank Act as to the payment of capital stock.
5. What questions should be considered before deciding as to the advisability of organizing a new bank?
6. Explain the meaning of surplus and why some banks have a surplus equal to, or even larger, than their capital.
7. Under whose supervision is the organization of national banks?
8. Explain the considerations which should weigh in allotting the stock of a new bank among subscribers.
9. What limitations are put upon the amount of capitalization of National Banks?
10. What advantage would a bank gain by organizing under federal supervision, under state supervision, or simply as a private bank?

CHAPTER VI.

1. Describe the position and duties of the president of a bank.
2. What obligations are assumed by the director of a National Bank?
3. Give a general idea of the organization of departments in a large city bank.
4. What does the work of the paying teller include?
5. Explain the position of the cashier in a small bank. In a large bank.
6. Indicate the relations that one bank is likely to have with other banks or bankers.
7. Explain the duties of the receiving teller.
8. Tell what you can of the frequency of directors' meetings, the nature of the business transacted and the manner of the records kept.

9. Describe time- and labor-saving devices of the bank.
10. Discuss the position of the vice-president of a bank.

CHAPTER VII.

1. Why does a bank desire to issue notes?
2. Explain the nature of the security required for the issue of national bank notes.
3. Do state banks issue notes? If not, why not?
4. Who does the work of engraving and printing of national bank notes?
5. Explain the steps by which a new bank arranges to take out circulation.
6. After the notes have been received from the treasury, explain the steps necessary to put them into circulation.

7. Does the bank make any profit from its note circulation? How?
8. Does the profit vary at different times? Explain.
9. Explain the manner of redeeming bank notes. What is done with worn or mutilated notes?
10. What restrictions are there as to the retirement of bank notes from circulation?

CHAPTER VIII.

1. Why does a bank seek to build up its deposits?
2. Are deposits created only by bringing cash to the bank? Name the other ways of creating deposits.
3. Why is a bank willing to take checks, drafts, etc., for collection?

4. How does it happen that bond coupons can be used to create deposits?
5. What other item of the bank's business will move up and down with bank deposits?
6. What different sorts of promissory notes are received as bank deposits?
7. Explain the manner of making a bank deposit.
8. What is meant by a certificate of deposit, and how is it used?
9. What obligations are there as to payment of interest on deposits?
10. In the case of a general deposit, what rights does the bank acquire and what obligations?

CHAPTER IX.

1. Why and how are ideas changing as to the proper manner of building up bank deposits?
2. Explain the best methods of advertising a bank.
3. Discuss the personal letter as a means of soliciting accounts.
4. Explain how a bank can build up its deposits by specializing along certain lines.
5. On what must all forms of advertisement or solicitation finally depend?
6. Is the bank strengthened by all deposit accounts or are some undesirable?
7. How can a bank determine whether an account is to be desired or not?
8. Explain briefly the system of determining the cost of a checking account.

9. Why is it desirable that the officials of the banks should have the information obtained from such a computation?
10. What besides the cost of carrying an account will determine its value to the bank?

CHAPTER X.

1. What benefits may be expected to result from a system of insurance of bank deposits?
2. Under what circumstances was the insurance of deposits tried in the United States?
3. Give the essential features of the Oklahoma law and its amended form.
4. Discuss the operation of this plan.
5. What defects in the scheme were brought to light by the Columbia Trust Company failure?

6. What other methods of insuring deposits have been suggested or tried?
7. What would you consider to be the proper area or extent of an adequate scheme of deposit insurance?
8. How far should such guarantee go? Should it guarantee immediate payment of depositors? Full payment of deposits?
9. Would the advantages of the deposit insurance system disappear in case settlement were deferred and were made with certificates instead of in cash, or for less than the total amount of deposit?
10. Explain the relation of the national banks to the Oklahoma guaranty system and the possibility of a federal insurance plan.

CHAPTER XI.

1. What is a bank check? What are the necessary details?
2. Discuss the different methods of filling in a check, and the protective devices used to prevent alteration.
3. What is meant by endorsement? What are the obligations assumed by the endorser?
4. What is an anomalous endorser? For what purpose does he give his endorsement?
5. What are the responsibilities of the bank for the payment of checks which have been forged or altered or are paid to the wrong parties?
6. What is a certified check and why is it used? A cashier's check?

7. Explain what is meant by stopping payment on a check. Under what circumstances will this be done? Who is responsible in case a stopped check is paid by mistake?
8. Explain the course taken by the bank when a check is presented calling for an amount larger than the amount of the customer's deposit.
9. What is the meaning of a "stale" check? What is the length of time for which a check is good?
10. Is the date essential to the validity of a check? What is a post-dated check, and how will it be treated by the bank?

CHAPTER XII.

1. Explain the purposes for which the Clearing House is organized, and the benefits which result therefrom.

2. How are the expenses of the Clearing House met? and what organization is necessary?
3. How do the banks prepare their checks for clearing, and in what form are they presented at the Clearing House, and by whom?
4. What reports and records are brought by the clerks to the Clearing House?
5. How are these records completed during the process of clearing?
6. How are settlements of Clearing House balances made?
7. Discuss the matter of membership in Clearing House associations as to member banks, non-member banks, United States Sub-Treasuries and Post Offices.
8. What other functions are sometimes performed by Clearing House associations besides merely the clearing of checks and similar cash items?

9. Show what is covered by the weekly reports of banks to the Clearing House.
10. What is the value of the weekly Clearing House statement to business men?

CHAPTER XIII.

1. What is the difference between bank loans and discounts?
2. What is a "Call Loan"? "Time Loan"?
3. Explain the usages in the matter of demanding payment of "Call Loans"; rates of interest on Call Loans?
4. What is meant by a "Collateral Loan?" and how is the Bank secured on such a loan?
5. Explain the question of margin of security on Collateral Loans, the call for additional security and the substitution of collaterals.

6. What is the security of the bank in the case of discounted commercial paper?
7. Explain the security given by endorsement.
8. What books of record does the bank keep to cover the discounted loan transactions?
9. What are the periods of time for which bank loans are commonly made?
10. Show how warehouse receipts can be used as security for a bank loan.

CHAPTER XIV.

1. On what does the bank base its decision as to whether or not to extend credit to a customer?
2. Explain the work of the credit department of a bank.

3. What is a borrower's statement and how is it used?
4. Give a general idea of the manner in which the Credit Department of a bank seeks to verify the borrower's statement.
5. What is meant by the ratio of quick assets to debts?
6. What subdivisions of the merchandise account should be shown? Discuss the importance of this item and the considerations which should weigh in determining the valuation of the various sorts of merchandise.
7. What is the difference between bills receivable and open accounts? Discuss the importance of these items.
8. What point should be considered in connection with the item "Bills Payable"?

9. Show the relation of the depreciation account to the asset items of plant, machinery and equipment, and furniture and fixtures.
10. Show the value and importance of a series of Statements from a customer for the purpose of comparison.

CHAPTER XV.

1. Why is it necessary for a bank to keep reserves? On what conditions will their amount depend?
2. Distinguish between two different kinds of bank reserve and the purposes which they respectively serve.
3. Give the requirements of the National Bank Act as to the legal reserve required of national banks.
4. Show the manner in which these reserves are calculated for a reserve city bank.

5. Point out the advantages possessed by high grade bonds as secondary bank reserves.
6. What restrictions are placed upon the business of national banks in case their reserves drop below the legal limit?
7. Show how the reserve requirements of the national bank act are somewhat modified in actual practice to meet the demands of the local banking situation.
8. What can you tell of the reserve requirements of state banks?
9. Discuss the location of the various parts of the reserve fund of a country bank.
10. How is the Comptroller of the Currency able to know whether or not national banks are keeping up their reserve requirements?

CHAPTER XVI.

1. Discuss the field covered by the collection department of a fair-sized city bank.

2. What is the collection register and how is it used?
3. How does the collection department account for the proceeds of its collection?
4. Explain the relation between the collection department and the note teller and receiving teller.
5. What sort of items are entered in the collection tickler and how are they handled?
6. Discuss collections sent to correspondent banks.
7. Suppose an item sent to a correspondent bank cannot be collected; show how it will be disposed of.
8. What is meant by "protest" and when and how is it used?
9. Explain the form and purpose of the protest notice.

10. Discuss the advantages of a card system for handling the detail work of the collection department.

CHAPTER XVII.

1. What is the international balance of trade and how is it related to the question of foreign exchange?
2. What is a documentary bill of exchange? Explain the papers which accompany it.
3. Explain what a "Finance Bill" is and how it is used.
4. What circumstances will cause the price paid for sterling bills of exchange in New York to be high, and what will cause them to be low?
5. What is meant by the "Mint Par" of exchange? How much will the actual price of foreign exchange vary from this? Why?

6. Discuss the traveler's letter of credit and the commercial letter of credit.
7. Explain the operation of domestic exchange as illustrated by the buying and selling of drafts in Minneapolis covering transactions in wheat sold on the New York Produce Exchange.
8. Explain the relation of the bank draft to the domestic personal draft.
9. What is meant by "sight draft," a "time draft," "acceptance"?
10. What are the lengths of time for which time drafts are most commonly drawn?

CHAPTER XVIII.

1. Explain the two systems of accounts kept by the bank's bookkeeping department.
2. How do the individual ledger bookkeepers secure the items for entry in their books?

3. Discuss the advantages of the three column ledger and the Boston ledger.
4. What disadvantages has each?
5. Explain the form and purpose of the cash book as used in a bank.
6. Show how the department of loans and discounts reports its transactions to the bookkeeping department and the manner in which these items appear on the cash book.
7. How are accounts with other banks handled by the general bookkeeper?
8. What is covered by the daily statement?
9. How are the various accounts of the assets and liabilities of the bank handled outside of the cash book and general ledger?
10. Discuss the use of a general ledger in the bank's system of accounting.

CHAPTER XIX.

1. How many different systems of reports and statements would a National Bank in New York City be in the habit of making?
2. What reports are generally required of state banks?
3. Discuss the scope and purpose of the report to the Clearing House, and the Clearing House bank statement.
4. How frequently are National Banks required to report to the Comptroller of the Currency, and what is covered in these reports?
5. What information does a National Bank make public in addition to the reports required by the Comptroller?
6. What other means are taken to safeguard the depositors in a bank?

7. What is the most important part of a National Bank examiner's duty in relation to the affairs of a bank which he is examining?
8. Why is it desirable that the board of directors employ the services of a Certified Public Accountant to examine its books and accounts?
9. Discuss the procedure of a Certified Public Accountant in making such an examination.
10. Contrast the work of a Certified Public Accountant in this connection with that of a National Bank Examiner.

CHAPTER XX.

1. What are the liabilities of the stockholders of a National Bank?
2. Are they the same in the case of banks organized under state law?

3. To whom is the responsibility for the actual conduct of the bank's business turned over?
4. What are the restrictions which the authorities of a National Bank must observe in the conduct of its affairs?
5. What are the specific forms of misconduct of bank officials and employees as specified in the national bank act?
6. To what standard of actual supervision of the bank's affairs should directors be held?
7. To whom do bank directors owe a duty for zeal and caution in directing the affairs of the bank, and how?

CHAPTER XXI.

1. Show under what conditions the trust company assumes prominence.

2. What are the functions which are ordinarily included in the activities of the trust company?
3. What advantages does the trust company possess over the individual as a trustee, administrator, guardian, or the like?
4. Explain the work of the trust company as transfer agent and registrar of corporate bonds.
5. Explain the services of the trust company when acting as trustee for a corporation.
6. Show the importance of the safe deposit department of a trust company, and its management and relation to the other departments.
7. Discuss the banking business of the trust company.
8. What kinds of records are needed by a trust company, and how are they organized?

9. What rates does the trust company charge for its services?
10. Discuss the supervision and regulation of trust companies.

CHAPTER XXII.

1. Point out the principal features which distinguish the savings bank from the commercial bank.
2. Show what benefits the savings bank renders both to the individual and to the community.
3. Under what sort of supervision or control are savings banks organized and conducted?
4. Show the differences between the mutual and the stock form of savings bank organization.
5. What limitations are placed upon the withdrawal of deposits?

6. Discuss the nature of the investments of a savings bank.
7. Explain the different ways of allowing interest on deposits.
8. What are the official positions found in the savings bank, and what is the internal organization?
9. Wherein does the accounting of a savings bank differ from that of a commercial bank?
10. Discuss the "savings department" of commercial banks.

CHAPTER XXIII.

1. From what class does the private banker draw his patronage?
2. What are the functions or services of the private banker?
3. To what extent is such a concern under official control?

4. Describe the relation of the private banker to the business of foreign exchange.
5. What is meant by the underwriting of securities, and how does the private banker arrange this work?
6. Does the private banker buy ordinary commercial paper, and, if so, to what extent and under what circumstances?
7. Discuss the matter of deposits as related to the business of the private banker.
8. Explain the relations existing between private bankers and brokers.
9. Discuss the payment of interest to depositors by private bankers.
10. What are the noticeable features of the loan work of the private banker?

PROBLEMS

PROBLEM 1.

A country bank in the State of New York has an active local demand for loans at five per cent, and is at the same time, offered Western commercial paper of first rate quality paying eight per cent. Which will the local banker select, and why?

PROBLEM 2.

A certain National Bank loaned money to one of its stockholders, which he failed to pay and they were unable to collect. He subsequently sold his shares of bank stock to a third party, but the bank's officials declined to issue a new stock certificate to this purchaser and pointed to a clause in the stock certificate which read, "no transfer may be made by any stockholder

liable to this bank as principal debtor or otherwise without the consent of the board of directors." Would such action be upheld under the National Bank Act?

PROBLEM 3.

National banks are forbidden to loan money upon the security of their own stock. In a great many cases such stock stands very high in the market, and is entitled to be classed as among the very best securities obtainable. Does this provision of the National Bank Act appeal to you as being wise or unwise? State your reasons fully.

PROBLEM 4.

A National Bank has loaned money upon the security of a mortgage on certain timber lands. Upon the default of the borrower, the mortgage was foreclosed and the bank bought in the land to reimburse itself for the loan. If it was decided that the most profitable way to handle the property would be to erect a saw-mill and

convert the timber into lumber, would the bank according to the provisions of the National Bank Act have the right to do this?

PROBLEM 5.

In times of financial uncertainty, outside or country banks are in the habit of calling on their reserve agents for that part of their reserves which they have deposited with these city correspondents. This causes a severe contraction of credit in the reserve cities. It was very pronounced in the Fall of 1907. Explain fully the reason of outside bankers in making these demands at such a time. Is the action wise?

PROBLEM 6.

The X National Bank, owing to a stringency in the money market, is forced to narrowly limit its loans. Two customers, A. and B., apply simultaneously for loans. A., who is doing a thriving business, offers a thirty-day note for \$5,000 drawn by C (who is a prosperous manufacturer) to his order, he putting his endorse-

ment upon it. B. offers his own unendorsed note for the same length of time and amount, together with a warehouse certificate for 7,500 bushels of wheat. Wheat is selling in the open market for \$0.80. The bank cannot accommodate both customers. Which one should they favor? Why?

PROBLEM 7.

How would a bank compute interest on a note for \$1,000.00 dated July 15, 1909, to run five months at six per cent.?

PROBLEM 8.

A customer deposits \$1,000 with the First National Bank of Ithaca, New York. He does not receive interest upon the deposit nor does he draw any checks against it for one year. If the bank can loan all its available funds at five per cent. and can get two per cent. on funds placed on demand with reserve agents, what is the greatest gross profit that the bank could

derive from this account in the course of this one year?

PROBLEM 9.

If the above bank had total average deposits of \$280,000 and could employ \$190,000 in local loans and discounts, with interest as in the previous problem, what is the greatest gross profit that the bank could make on the year's business?

PROBLEM 10.

Thomas R. Brown opens an account with the 1st National Bank and gives his signature upon the card provided for that purpose in the form we have indicated, namely, Thomas R. Brown. He draws several checks against his account, each time in this form. These are all paid by the bank, but the next check presented is signed simply "Brown," but appears to be genuine and corresponds to that part of his signature as given to the bank. Would the paying teller be

justified in refusing to honor a check so signed?

PROBLEM 11.

Smith issues a check to Brown and Brown transfers it to Jones with a restrictive endorsement, but afterwards discovers that for perfectly good and sufficient reasons Jones was not entitled to receive the money until he has complied with certain conditions of the transaction between himself and Brown, out of which this settlement arose. Brown therefore goes to the bank and orders them to stop payment on the check. Is the bank required to do so on his instructions? Would it if Smith had stopped payment? Would Smith have a right to do so inasmuch as he was not directly concerned in the transaction?

PROBLEM 12.

Eight banks, which we will call A, B, C, D, E, F, G, and H, respectively, are associated in a clearing house agreement. On a given day they

hold checks or other clearance items against each other as follows:

A against B	\$198.74	B against A	\$647.86
A " C	\$ 76.07	B " C	\$947.68
A " D	\$875.00	B " D	\$ 24.75
A " E	\$435.58	B " E	\$685.74
A " F	\$836.57	B " F	\$736.52
A " G	\$753.96	B " G	\$ 75.36
A " H	\$ 65.74	B " H	\$362.64

C against A	\$364.75	D against A	\$378.83
C " B	\$ 76.95	D " B	\$553.66
C " D	\$836.88	D " C	\$ 53.35
C " E	\$667.64	D " E	\$ 9.08
C " F	\$577.25	D " F	\$887.90
C " G	\$ 32.43	D " G	\$100.86
C " H	\$907.05	D " H	\$654.00

E against A	\$ 664.76	F against A	\$ 314.52
E " B	\$ 6.88	F " B	\$ 979.00
E " C	\$ 788.80	F " C	\$ 99.01
E " D	\$ 77.86	F " D	\$1,707.44
E " F	\$ 653.23	F " E	\$ 998.54
E " G	\$7,631.16	F " G	\$ 33.63
E " H	\$ 888.31	F " H	\$ 875.34

G against A	\$ 446.26	H against A	\$ 64.76
G " B	\$ 96.61	H " B	\$119.43
G " C	\$5,847.13	H " C	\$807.03
G " D	\$ 293.01	H " D	\$435.74
G " E	\$ 731.02	H " E	\$635.92
G " F	\$ 763.39	H " F	\$209.00
G " H	\$ 909.11	H " G	\$536.70

Draw up a settlement or proof sheet for this day, showing what payments must be made to settle all accounts. What is the volume of clearings for the day?

PROBLEM 13.

"A" applies to a bank for a loan of \$5,000 and is told that the bank makes it a rule that in such cases the borrower is required to maintain a balance on deposit with the bank amounting to 20% of the amount of the loan. He has been in the habit of keeping a minimum balance of only \$200. If he takes the loan on the terms suggested by the bank and pays 6% for the money, what per cent. is he paying on the amount which he really gets for use under this agreement?

PROBLEM 14.

EUREKA PRINT COMPANY.

Jobbers and Catalogue Printers.

ASSETS.

Cash	\$ 681.36
'Accounts Receivable	3,078.18
Merchandise	1,045.80
Machinery and fixtures	5,000.00
	\$9,805.34

LIABILITIES.

Bills Payable	\$2,089.30
Open Accounts	4,464.74
Net Worth	3,251.30
	\$9,805.34

Discuss the above borrower's statement, discussing any points which seem to indicate a weakness in the proposition. Give the ratio of quick assets to indebtedness and state how large a loan you would be willing to extend the owner of this business on the showing of this statement.

PROBLEM 15.

WILLIAM B. ROBERTSON & COMPANY.

ASSETS.

	1903	1904	1905
Good Will	\$2,000,000.00	\$2,000,000.00	\$1,864,575.30
Real Estate	1,450,000.00	1,450,000.00	1,450,000.00
Machinery	179,680.00	199,378.88	212,199.48
Good Accounts	1,970,056.10	1,979,834.10	2,292,915.78
Cash	249,660.78	294,718.86	139,597.88
Merchandise	2,377,627.38	2,618,613.84	2,599,651.00
	<u>\$8,227,024.26</u>	<u>\$8,542,545.68</u>	<u>\$8,558,939.44</u>

PROBLEMS

LIABILITIES.

Bonds	\$2,000,000.00	\$2,000,000.00	\$1,989,600.00
Preferred Stock	2,000,000.00	2,000,000.00	2,000,000.00
Common Stock	2,000,000.00	2,000,000.00	2,000,000.00
Bills Payable	750,000.00	1,170,000.00	1,400,000.00
Accounts Payable ...	828,376.98	847,120.98	993,860.90
Surplus	648,647.28	525,424.70	175,478.54
	\$8,227,024.26	\$8,542,545.68	\$8,558,939.44

Point out two curious features of the above statement and show the value of paralleling statements for succeeding years. Is the above a better or worse proposition than that shown in the preceding problem? What points should be closely scrutinized?

PROBLEM 16.

It has been suggested at times to pass a law requiring all banks to keep the whole of their cash reserves in their own vaults, instead of being allowed, as now, to deposit one-half to three-fifths of it with reserve agents. What, in your opinion, would be the effect of such a law on the banks and on the business situation?

PROBLEM 17.

Suppose that a country bank capitalized for \$100,000 and having deposits of \$750,000 takes full advantage of its note issue and reserve privileges, show just where its cash reserve is located if the bank keeps to the provisions of the National Bank law. Give figures.

PROBLEM 18.

A bank in New York receives from a Western correspondent a sight draft accompanied by bill of lading drawn to the shipper's order, sent to the New York Bank for collection. Is this bank justified in surrendering the bill of lading before receiving payment of the sight draft which it is intended to secure?

PROBLEM 19.

John Doe draws a check upon the Corn Exchange National Bank of Chicago to the order of Richard Roe, residing at LaGrange, Illinois, and remits same to him by mail. Roe uses the check to pay his grocer, George M. Barker, who in turn deposits with the LaGrange State Bank. This bank sends the check to its Chicago correspondent, the First National Bank, and the First National Bank of Chicago presents the check for payment to the Clearing House. Show what the maker of the check would find upon its back when it was ultimately returned to him as a cancelled voucher.

PROBLEM 20.

Figure the net profit on \$100,000 of bank note circulation based on U. S. consols of 1930 bought July 1, 1910, at 104. Current interest rate is $4\frac{1}{2}\%$. Sinking fund at a flat rate, without account of interest element.

PROBLEM 21.

Assuming that in both cases the bank kept all its notes in use, how much would the net profit on circulation decrease when the rate of current interest on loans and discounts rose from four per cent. to seven per cent.? Give figures based on a note circulation of \$100,000.

PROBLEM 22.

X, a depositor in a savings bank, has his pass book stolen, but is not aware of the fact. The person thus fraudulently securing possession of the pass book secures other papers on which the signature of X appears, and from these he learns to imitate the signature with great ac-

curacy. He thereupon takes the pass book to the bank and signs the name of X to a withdrawal blank for the sum of \$400, which is paid him from X's balance, which amounts at the time to slightly over \$500. When X discovers his loss he attempts to hold the bank responsible, but they point to the following paragraph of their rules and regulations and disclaim responsibility:

“5. As the officers of the savings department may not be able to identify every depositor, and as the possession of the depositor's pass book may, if in improper hands, tend to mislead the officers in making payments, payments made by the savings department to one holding the pass book shall be binding on the owner of the book, unless such owner has, prior to such payment, notified the savings department in writing that his book has been lost, stolen or destroyed, and requested the savings department not to make payments on presentation of such book.”

Can X recover the \$400? Could he, supposing that he had known his pass book had been stolen? Would it make any difference whether

this rule was printed in the pass books of the bank?

PROBLEM 23.

Show the effect of each of the following events upon the price of sterling exchange in New York, giving your reasons for answering as you do in each case.

1. A large cotton crop in the United States.
2. A war in the Far East.
3. Selling a large block of American railway bonds in London.
4. A severe break on the London stock market.

PROBLEM 24.

What would be the purchasing price per pound of a documented bill of exchange on London, drawn at ninety days after sight, when the market rate for demand checks on London is \$4.88, assuming that the purchaser figures on a rate of interest of $2\frac{1}{2}\%$, a profit of one-fifth of one per cent., and a stamp tax for a revenue stamp abroad of one-twentieth of one per cent.

PROBLEM 25.

When the London discount rate is three and one-fourth per cent. and the commission for acceptance can be assumed at one-sixteenth of one per cent., what would be the rate of exchange on a ninety-day finance bill, if London checks are now selling at $\$4.88\frac{1}{4}$? Standard stamp rate.

PROBLEM 26.

John Doe opens a savings account on January 1st by the deposit of \$10.00 and intends to make similar deposits on the first of each month thereafter. He does so on February 1st and March 1st, but makes no deposit on April 1st and on May 1st he withdraws \$10.00. On June 15th he deposits \$5.00. Suppose that this savings bank figures interest quarterly at the rate of four per cent. and allows interest only on balances on deposit on interest dates, what is Doe's balance on July 1st? Fractions of months not counted.

PROBLEM 27.

Suppose interest is allowed monthly in the case given before, would there be any difference in the result? Give figures for the whole term showing each monthly balance.

PROBLEM 28.

The X National Bank commences business on January 1st with a capital of \$100,000, all of which has been paid in full in cash. From this the bank pays \$10,000 to secure and equip its place of business. It receives cash deposits of \$135,000 and makes loans and discounts to the amount of \$150,000, on a six per cent. basis. These loans and discounts are advanced, one-third in the form of cash, and two-thirds by means of deposit accounts. Show how the balance sheet of the bank would appear one year after date.

PROBLEM 29.

Suppose in the case of a bank given in the preceding problem that they continue in busi-

ness for six months, in which time they make further profits of \$15,000, invest \$150,000 in bonds, set aside the surplus required by the National Bank Act, and devote \$4,000 to the expense of conducting the business. How would the above statement be modified by these transactions? Would this new statement meet with the approval of the Comptroller of the Currency?

PROBLEM 30.

The cashier of the First National Bank of Ourtown uses \$100,000 of its funds in certain investments of his own, and covers these transactions in the bank's records by means of memorandum notes without security. The bank fails, and the directors seek to avoid responsibility on the ground they were not aware of the nature of the alleged loans. What responsibility will they have to bear? How about the cashier?

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